

Message Text

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 6561

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 BONN 18545

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: ECON, EFIN, GW

SUBJECT: FRG OFFICIALS COMMENT ON PLANNED ECONOMIC
MEASURES AND RELATED TOPICS

REFS: (A) BONN 18043, (B) BONN 18108, (C) BONN 18184,
(D) BONN 18267, AND (E) BONN 18384

BEGIN SUMMARY: THE FRG HAS IN PREPATION A PACKAGE OF
ECONOMIC MEASURES THAT WILL BE ANNOUNCED IN LATE
DECEMBER AFTER CONSULTATIONS WITH THE EEC AND THE USG.
THE DEGREE OF EXPANSION IN THIS PACKAGE IS STILL A
SUBJECT OF DEBATE, BUT TENDS TO THE MODERATE SIDE. A
PREMIUM TO BE PAID FOR NEW INVESTMENT AND SOME USE OF
THE COUNTER-CYCLICAL FUNDS IS ENVISAGED. UNEMPLOYMENT
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COULD REACH 1.3 MILION IN JAN/FEB 1975, BUT NO GOVERN-

MENT STEPS COULD AVERT THIS. THE TIMING AND MAGNITUDE OF THE ECONOMIC MEASURES ARE CRUCIAL BOTH IN TERMS OF IMPACT ON THE SPRING STATE ELECTIONS AS WELL AS THE 1976 NATIONAL ELECTIONS. END SUMMARY

1. THREE FRG OFFICIALS AT THE DEPUTY ASSISTANT SECRETARY LEVEL IN THE ECONOMICS AND FINANCE MINISTRIES PROVIDED AN EMBOFF WHO CALLED ON THEM A GOOD RUN-DOWN ON A VARIETY OF TOPICAL ECONOMIC ISSUES WHICH THIS CABLE SUMMARIZES. THE PRINCIPAL ITEM OF CONVERSATION WAS THE NEW ECONOMIC PROGRAM THE FRG HAS IN PREPARATION TO FIGHT UNEMPLOYMENT, RECESSION, AND INFLATION. NOT UNTIL NEXT WEEK WILL THE INTERNAL FRG FINAL DECISION ON THE PROGRAM'S PRECISE CONTENTS BE MADE. THEN, AT THE EEC SUMMIT DECEMBER 10, AND DURING CHANCELLOR SCHMIDT'S TALKS WITH PRESIDENT FORD, FEEDBACK WILL BE SOUGHT AND CONSULTATIONS UNDERTAKEN ON THE PROGRAM AND ALLEGEDLY APPROPRIATE MODIFICATIONS MADE. THE SCENARIO WOULD THEN CALL FOR A PUBLIC ANNOUNCEMENT OF THE PROGRAM IN THE SECOND PART OF DECEMBER. THE CURRENT FEATURES OF THE PROGRAM ACCORDING TO THE SOURCES INCLUDE THE FOLLOWING:

A. AN INVESTMENT BONUS PLAN TO STIMULATE THE WEAKEST ELEMENT IN THE CURRENT ECONOMIC PICTURE, I.E., PRIVATE INVESTMENT. A 7.5 PERCENT BONUS WILL ACCRUE TO INVESTORS WHO MAKE THEIR INVESTMENT PRIOR TO SOME SPECIFIED DATE IN 1975. THE ACTUAL PAYMENT OF THE BONUS WILL BE MADE IN 1976 SO AS NOT TO FURTHER WORSEN THE PROJECTED 1975 BUDGETARY DEFICIT. THE PROGRAM WILL TEND TO PAY FOR ITSELF SINCE THE RESULTANT INCREASED GROWTH WILL BRING EVENTUAL GREATER TAX REVENUES. IT HAS AN ADVANTAGE OVER A DIRECT TAX CREDIT SINCE IT WILL NOT BE RESTRICTED TO FIRMS REPORTING TAXABLE EARNINGS. POLITICAL DRAWBACKS RESIDE IN THE FACT THAT IT WILL BE SEEN BY THE PUBLIC TO BE HELPING BIG BUSINESS BUT NOT THE WORKERS AND THEREFORE MUST BE COUNTERBALANCED WITH SOME SOP FOR THE LATTER. (THE CDU HAS FURTHER COMPLICATED MATTERS BY SUGGESTING THAT THERE BE SOME SORT OF WORKERS, PARTICIPATION IN PROFITS TO BALANCE THINGS

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OUT.)

B. THE SOP PLANNED BY THE GOVERNMENT HAS TO DO WITH SOME SORT OF EXPENDITURE PROGRAM TO BE INITIATED EARLY IN 1975 AND FINANCED FROM THE DM 10 BILLION COUNTERCYCLICAL RESERVES BEING HELD IN THE BUNDESBANK. THE EXACT DIMENSIONS OF THIS PROGRAM ARE A SUBJECT OF DEBATE. THE SPD POLITICIANS WANT A BIG PROGRAM OF UP

TO DM 5 BILLION THAT WOULD CONSIST OF SECTORAL HELP TO CONSTRUCTION, ENERGY RESEARCH AND PERHAPS TEXTILES OF DM 2-3 BILLION PLUS ANOTHER LIKE AMOUNT FOR GLOBAL APPLICATION. BOTH THE ECONOMIC AND FINANCE MINISTRIES ARE, ACCORDING TO THESE SOURCES, FOR THE SMALLEST POSSIBLE EXPENDITURE PROGRAM WITH DM 1-2 BILLION BEING THE RANGE THEY WOULD LIKE TO SEE. THIS CORRESPONDS TO THE POLITICAL PHILOSOPHY OF THE FDP-LED ECONOMICS MINISTRY AND THE PURE ECONOMIC VIEWPOINT OF THE TECHNICIANS IN BOTH MINISTRIES. THE CHANCELLOR, ACCORDING TO

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SOME BUT NOT ALL SOURCES, IS INCLINED TO MORE THAN A MINIMAL PROGRAM; HIS ADVISORS IN THE CHANCELLOR'S OFFICE ARE FOR A LARGER PROGRAM. A CONSENSUS-FORMING PROCESS

IS CURRENTLY UNDERWAY TRYING TO REACH A COMPROMISE BETWEEN THOSE IN FAVOR OF EXPANSION AND THOSE ON THE SIDE OF RESTRICTIVE POLICIES.

C. GOVERNMENT SPENDING PLANNED FOR LATER PERIODS WILL BE ACCELERATED. AN EXAMPLE CITED WAS THE PURCHASE OF REPLACEMENT VEHICLES BY GOVERNMENT ENTITIES. NOT MUCH ELSE WAS FORESEEN TO HELP THE AILING AUTO INDUSTRY.

D. THE BUNDESBANK BOARD HAS INDICATED THAT IN PRINCIPLE IT IS AGREEABLE TO A LOWERING OF INTEREST RATES AND AIMING FOR A GROWTH OF THE MONEY SUPPLY TO AN
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8 PERCENT ANNUAL RATE. THIS AGREEMENT WAS CONDITIONED, HOWEVER, ON THERE BEING NO LARGE-SCALE EXPENDITURE PROGRAM UTILIZING THE COUNTERCYCLICAL FUNDS.

E. THE ENTIRE DM 10 BILLION COUNTERCYCLICAL RESERVE WOULD BE UTILIZED IN THE COURSE OF 1975 WITH THE BALANCE NOT DEVOTED TO THE EXPANSIONARY STIMULATION MENTIONED IN B ABOVE BEING USED TO HELP COVER THE ANTICIPATED DM 55 BILLION BUDGETARY DEFICIT ALREADY PROGRAMED FOR THE FEDERAL AND OTHER LEVELS OF GOVERNMENT.

F. NO TAX INCREASE IS PLANNED.

2. IT WAS ADMITTED, BY ONE SOURCE, ALBEIT WITH THE GREATEST OF CAUTION SO THEREFORE PROTECT, THAT THE GOVERNMENT HAS A SECRET FORECAST SHOWING THAT UNEMPLOYMENT COULD REACH 1.3 MILLION IN JAN/FEB 1975 (SEE REFTELS A AND C). THERE IS RESIGNATION, HOWEVER, TO THE FACT THAT THERE ARE NO MEASURES THAT CAN NOW BE UNDERTAKEN TO ALTER THIS DEVELOPMENT.

3. THE EXPANSION VS. RESTRICTION DEBATE IS BEING FED BY THE REALIZATION THAT IMPORTANT STATE ELECTIONS ARE COMING UP THIS SPRING, CULMINATING WITH THAT IN NORTH RHINE/WESTPHALIA MAY 4. EVEN THOUGH THE FDP OBTAINED ONLY 5.5 PERCENT IN THE LAST ELECTION, THE ONE DEPUTY ASSISTANT SECRETARY IN THE ECONOMIC MINISTRY WHO HAS PARTICULARLY CLOSE TIES TO THE FDP HELD THE HARD LINE AGAINST ANY STIMULATIVE MEASURES, AND WAS PARTICULARLY UPSET ABOUT NRW UNDERTAKING ITS OWN DM 300 MILLION PROGRAM. HE FORESAW AN ALL-PARTY GOVERNMENT IF THE UNEMPLOYMENT RATE HIT 6-7 PERCENT (WHICH IT COULD ACCORDING TO BOTH EMBASSY AND FRG FORECASTS). THE TECHNICIAN DEPUTY ASSISTANT SECRETARY FROM THE SAME MINISTRY SAW A CONFLICT BETWEEN SHORT-TERM AND MEDIUM-

TERM GOALS. IF TOO MUCH IS DONE NOW, AIMING FOR
FAVORABLE EFFECTS ON THE ELECTORATE THIS SPRING, THEN
THERE WILL BE ECONOMIC PROBLEMS IN 1976 WHEN THE
NATIONAL ELECTIONS ARE SCHEDULED. THE BEST TIMING FOR
THE LATTER WOULD REQUIRE ONLY A MODERATELY EXPANSIONARY
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POLICY AT THIS JUNCTUREHE OPINED.

4. ALL INFORMANTS THOUGHT THAT THE GREAT DIFFERENTIAL
IN INFLATION RATES WOULD LEAD TO UPWARD PRESSURE ON THE
DM RATE. THE COUNCIL OF ECONOMIC EXPERTS' REPORT (SEE
REFTEL D) HAD MUCH THE SAME TO SAY, BUT THE FRG
OFFICIALS OBSERVED THAT WHILE IT IS AN ECONOMIC VERITY,
PERHAPS IT WAS BETTER OFF LEFT UNSAID.

5. BOTH THE FINANCE AND ECONOMIC MINISTRY CONSIDER THE
COUNCIL OF ECONOMIC EXPERTS PROJECTED 1975 GROWTH RATE
OF 2 PERCENT TOO LOW BY 0.5 PERCENT. THEY ALSO THOUGHT
THAT THEIR 5.5-6 PERCENT INFLATION FORECAST WAS TOO
LOW; IT SHOULD BE MORE LIKE 6.5 PERCENT.
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